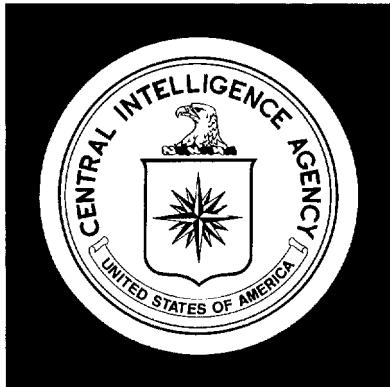


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CHILE: Attacks on security forces appear to be tapering off. Santiago and the provinces were quiet yesterday although arrests of extremists and raids in search of weapons have increased, according to radiobroadcasts.

The regime now says that many of the 5,200 persons under arrest are innocent of any wrongdoing and will be freed after questioning. It claims the arrests were justified by the need to prevent the escape of those suspected of armed resistance or sabotage. The latter will be tried by military courts.

According to junta President Pinochet, the courts will deal severely with foreigners who have killed Chileans. It is still unclear what the government intends to do with the rest of the thousands of foreigners who are allegedly illegal residents. Foreign Minister Huerta has told the UN refugee commission that Chile will not send political refugees back to their own countries against their will. Some expulsions have already taken place, however.

The junta is to begin its economic restructuring effort in earnest today, the first regular workday since the coup. Government workers have been told that if they do not appear today they will lose their jobs. There may be absenteeism by the supporters of the previous regime.

Possibly in an effort to reduce potential labor problems, initial government plans for the state-owned sector of the economy may include turning over to the workers as much as 50-percent ownership of enterprises and selling the remainder to the public. Such a scheme could salvage a sense of participation for the workers. Companies taken over by the Allende government but not legally owned by the state reportedly will be returned to their owners. The junta appears to be coordinating its economic policy with private-sector interest groups.

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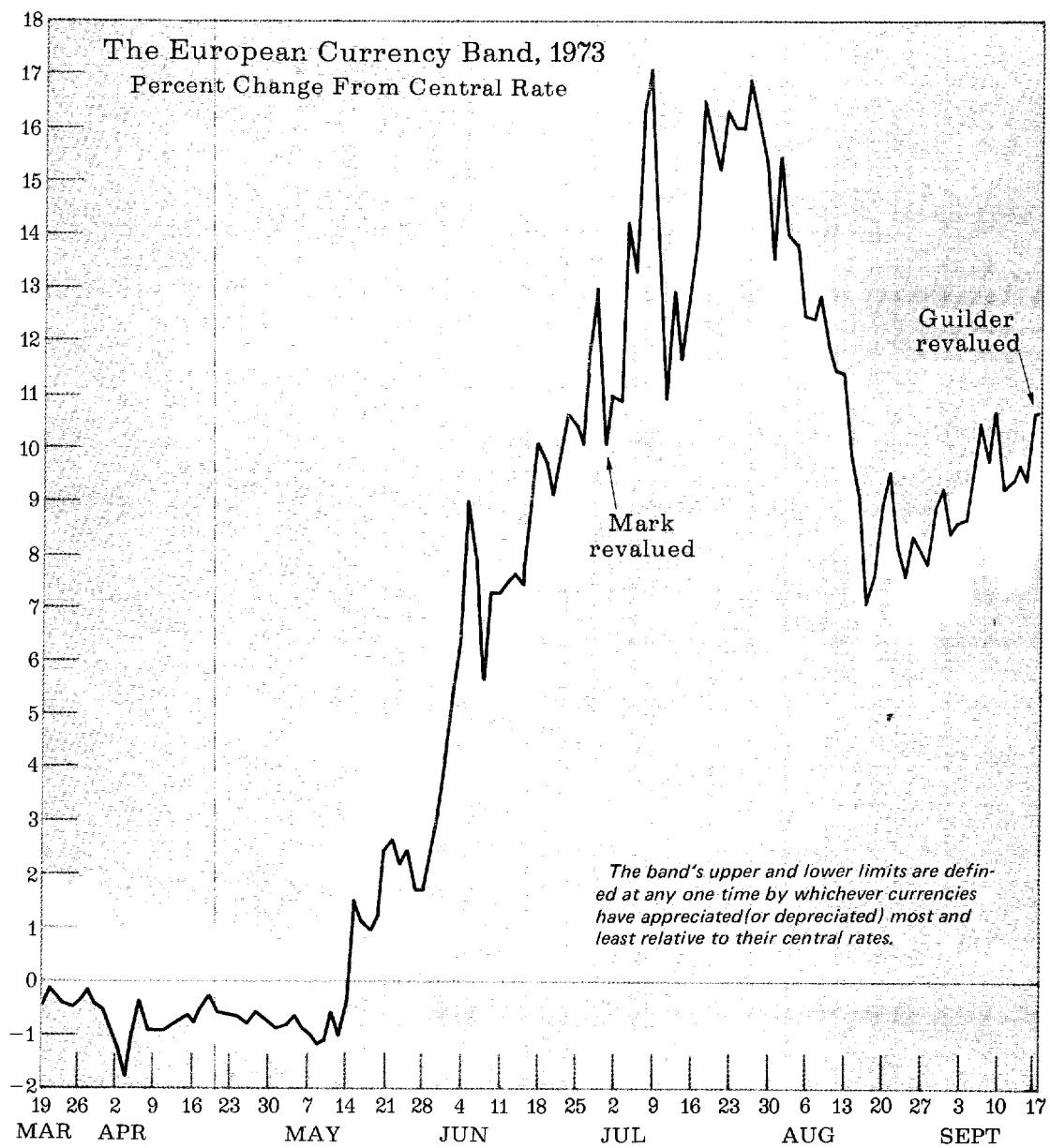
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INTERNATIONAL MONETARY DEVELOPMENTS: The re-valuation of the Dutch guilder last weekend reintroduced some uncertainty into international money markets.

The dollar weakened somewhat on Monday and Tuesday against the major European currencies. Traders shifted into marks and Belgian francs in anticipation that these currencies would appreciate--possibly even be revalued--in the wake of The Hague's decision. Selling pressure against the dollar generally has been heaviest when the mark is at the top of the European joint float band. The dollar, however, is significantly stronger than it was in July and early

August, [redacted]

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[redacted] The dollar closed at over 2.41 in Frankfurt yesterday.

The renewed strength of the German and Belgian currencies required increased intervention by major European central banks to maintain the European joint float. The French and Norwegian central banks, whose currencies are now at the bottom of the float, are selling the strong currencies. According to some dealers, the Bank of France sold over \$100 million worth of strong currencies yesterday. The German and Belgian central banks have been buying French francs and Norwegian crowns. The Bundesbank's French franc purchases on Monday and Tuesday are estimated at \$60-80 million.

The EC Commission publicly criticized The Hague for acting without prior EC consultation although it recognized the domestic economic justification for the revaluation.

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East Germany: The East German parliament will meet on 3 October to elect a chairman of the State Council to replace the late Walter Ulbricht. The leading candidates for the largely ceremonial position are Premier Willi Stoph and 79-year-old Friedrich Ebert, a member of the Politburo. Regardless of who is elected, the real power will remain in the hands of party leader Erich Honecker.

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Japan - North Vietnam: Tokyo and Hanoi will establish diplomatic relations at the ambassadorial level on 21 September, according to a Japanese Foreign Ministry official.

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Indonesia - South Korea: Jakarta announced yesterday that it will upgrade its mission in Seoul to the ambassadorial level. Indonesia exchanged ambassadors with North Korea in 1964.

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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